

## Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 EUR-03 NSC-04 TRSE-00 CEA-01  
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R 141755Z APR 78  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC 2135  
TREASURY DEPT WASHDC  
INFO AMEMBASSY BRUSSELS  
AMEMBASSY PARIS

C O N F I D E N T I A L ROME 7024

LIMDIS GREENBACK

USEC AND USOECD; ALSO FOR EMBASSIES

E. O. 11652: GDS  
TAGS: EFIN, IT  
SUBJ: ITALY/IMF RELATIONS AND COPENHAGEN SUMMIT

1. DURING PERIODIC CALL ON SILVANO PALUMBO, DIRECTOR GENERAL  
ITALIAN MINISTRY OF TREASURY, TREASATT SOUGHT PALUMBO'S VIEWS ON  
FOLLOWING ISSUES:

A. ITALIAN/IMF RELATIONS.

(1) ACCORDING TO PALUMBO, CURRENT THINKING WITHIN THE GOVERNMENT  
IS TO WAIT UNTIL LATE MAY-EARLY JUNE BEFORE INVITING THE IMF TEAM  
TO ROME. THE PLAN IS TO HAVE THE IMF COME FOR THE NORMAL ARTICLE  
VIII CONSULTATIONS AND NOT FOR THE MID-TERM REVIEW IN APRIL AS HAD  
BEEN FORESEEN IN THE LETTER OF INTENT. THIS IN EFFECT SCRAPS THE  
EXISTING STAND-BY. THE REASON FOR DELAYING THE VISIT UNTIL MAY/  
JUNE IS THAT THE GOVERNMENT DOES NOT EXPECT TO HAVE ITS ECONOMIC  
PACKAGE, PARTICULARLY THE BUDGET, APPROVED BEFORE THEN. THE  
APPROPRIATIONS BUDGET CURRENTLY UNDER DISCUSSION IN PARLIAMENT  
WILL HAVE TO BE REVISED AFTER IT IS PASSED IN ORDER TO BRING THE  
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DEFICIT DOWN TO THE GOVERNMENT'S TARGET OF 24,000 BILLION LIRE  
(CASH BASIS) FROM THE PRESENT LEVEL OF 30,380 BILLION LIRE.  
PANDOLFI PLANS TO SUBMIT A BUDGET AMENDMENT ("MINI BUDGET") IN  
MAY WHICH WOULD MAKE APPROPRIATIONS ADJUSTMENTS NECESSARY TO MEET  
THE 24,000 TARGET. PALUMBO DID NOT RULE OUT THE POSSIBILITY OF  
SOME PRELIMINARY CONTACTS WITH THE FUND, PERHAPS AT THE PANDOLFI/  
WHITTOME LEVEL, BEFORE THE TEAM IS INVITED TO ROME, IN ORDER TO

AGREE ON A TIMETABLE. ACCORDING TO PRESENT PLANS, THE ITALIAN GOVERNMENT WOULD APPROACH THE ISSUE OF A NEW STANDBY ONLY AFTER THE COMPLETION OF THE ARTICLE VIII CONSULTATIONS. PALUMBO WAS IMPLYING THAT THE ARTICLE VIII CONSULTATIONS WOULD BE USED AS A TEST TO SEE WHETHER THE CONDITIONS EXISTED FOR A NEW STAND-BY. HE INDICATED JULY AS THE LIKELY MONTH TO BEGIN THESE NEGOTIATIONS.

(2) WHEN ASKED ABOUT THE IMPLICATION OF THIS SCHEDULE FOR TREASURY'S INITIAL PLANS TO SYNCHRONIZE DEBT REPAYMENTS IN 1978 WITH NEW FINANCING, HE SAID THAT THE GOVERNMENT STILL HOPES TO GET NEW RESOURCES FROM THE FUND AND WILL TRY TO ARRANGE FOR ADDITIONAL FINANCING FROM THE EC. PALUMBO DID NOT SEEM AT ALL CONCERNED ABOUT ITALY'S ABILITY TO MEET ITS DEBT PAYMENTS DURING 1978, BUT DID EXPRESS SOME RESERVATIONS ABOUT 1979 WHEN THE CURRENT ACCOUNT IS EXPECTED TO BE CLOSE TO BALANCE OR PERHAPS EVEN IN DEFICIT.

B. COPENHAGEN SUMMIT. WITH RESPECT TO THE COPENHAGEN SUMMIT, PALUMBO SAID THAT THE MAIN DECISIONS WERE TAKEN IN AN EXECUTIVE SESSION ATTENDED BY HEADS OF STATE ONLY. HE SAID, HOWEVER, THAT HE HAD LEARNED THAT WITH REGARD TO THE GROWTH TARGET OF 4.5 PERCENT, CHANCELLOR SCHMIDT WAS OPPOSED TO IT FROM THE VERY BEGINNING AND AGREED TO HAVE IT INCLUDED IN THE COMMUNIQUE ONLY WHEN HE FELT HE COULD NOT DISSUADE THE OTHERS FROM ABANDONING THE IDEA OF SETTING THIS SPECIFIC TARGET. ON THE QUESTION OF EXCHANGE RATE POLICY, PALUMBO SAID THAT, IN THE EXECUTIVE SESSION, CHANCELLOR SCHMIDT PROPOSED THE REVITALIZATION OF THE EUROPEAN MONETARY FUND AS A WAY TO INCREASE EUROPEAN EXCHANGE RATE POLICY COORDINATION. CONFIDENTIAL

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THE CHANCELLOR PROPOSED AN INCREASE IN THE FUND'S RESOURCES TO (1) INTERVENE IN EXCHANGE MARKETS TO SUPPORT A KIND OF ENLARGED SNAKE ARRANGEMENT, AND (2) FINANCE ENERGY PROJECTS. SCHMIDT REPORTEDLY MADE IT CLEAR THAT HE DID NOT WANT TO HAVE THE EUROPEAN FUND BECOME A COMPETITOR OF THE IMF, BUT DID SEE IT AS A MEANS TO HELP STABILIZE THE MONETARY SITUATION. THE FUND WOULD REPORTEDLY INTERVENE IN THE MARKETS IN CURRENCIES OTHER THAN THE DOLLAR. WITH RESPECT TO THE SUMMIT, PALUMBO BELIEVED THAT THE DISCUSSIONS WERE VERY VAGUE. WHILE THE ISSUES MAY BE CLARIFIED BEFORE THE JULY BONN SUMMIT, HE DIDN'T SEEM TO HAVE MUCH HOPE. IN THIS REGARD, HE INQUIRED ABOUT THE STATUS OF CHAIRMAN SCHULTZE'S EFFORTS TO PREPARE A PAPER FOR THE BONN SUMMIT, A TASK WHICH HE RECEIVED FROM THE ECONOMIC ADVISORS OF THE HEADS OF GOVERNMENT MEETING ON MARCH 31. HE ASKED TO CONVEY TO CHAIRMAN SCHULTZE HIS COMPLETE DISPOSAL TO HELP IN THIS EXERCISE.

2. ACTION REQUESTED: THAT WE BE INFORMED OF THE STATUS OF CHAIRMAN SCHULTZE'S PROJECT AND HOW THE ITALIANS CAN CONTRIBUTE TO HIS EFFORTS. GARDNER

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## Message Attributes

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**Concepts:** RELATIONS WITH INTERNATIONAL ORGS, DIPLOMATIC DISCUSSIONS, MEETING REPORTS  
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